

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SS-15 L-03 EB-07 INR-07 SSO-00 INRE-00
/043 W

-----270330Z 126906 /70

O 270300Z DEC 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC NIACT IMMEDIATE 2629

C O N F I D E N T I A L QUITO 8915

FOR DELIVERY OPENING OF BUSINESS DECEMBER 27

E.O. 11652: GDS

TAGS: ENRG, EINV, PFOR, EC

SUBJECT: GULF-GOE NEGOTIATIONS

REF: QUITO 8914

1. CHARGINED AT MY CONVERSATION WITH ADMIRAL POVEDA DAY BEFORE
YESTERDAY, I DECIDED TO CALL ON GENERAL DURAN TO EXPRESS MY
CONCERN OVER THE LATEST TURN OF EVENTS. I SAW HIM TONIGHT AND
MADE THE FOLLOWING POINTS:

(A) I HAD LEARNED THAT THE SUPREME COUNCIL INTENDED TO ISSUE
A DECREE TAKING OVER GULF ON DECEMBER 31 AND THAT THE PROPOSED
DECREE WAS NOT CONSISTENT WITH THE UNDERSTANDING BETWEEN THE
TWO GOVERNMENTS AS TO THE CRITERIA TO GOVERN THE GULF SETTLEMENT,
AS STATED IN THE SUPREME COUNCIL'S MEMORANDUM OF SEPTEMBER 30.

(B) THE CONSEQUENCES OF A TAKEOVER WITHOUT A PRIOR AGREEMENT WITH
GULF AS TO TERMS WOULD BE VERY BAD FOR ECUADOR: THE COMPANY
COULD TRY TO BLOCK CEPE SALES TO THE U.S. THROUGH COURT ACTION;
THE COMPANY COULD SUSPEND PAYMENT OF THE \$80 MILLION IN OUT-
STANDING DEPOSITS IT NOW OWED; EVEN WITHOUT COURT ACTION,
FOREIGN BUYERS MIGHT BE RELUCTANT TO BUY OIL FROM CEPE FOR FEAR
OF LEGAL PROBLEMS AS TO OWNERSHIP OF THE OIL; GULF WOULD NOT
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CONTINUE TO PAY ITS SHARE OF THE OPERATING COSTS; AND WORST OF
ALL, A CONFLICT WITH THE U.S. OVER THIS MATTER COULD CLOSE
DOORS TO INTERNATIONAL COOPERATION WITH ECUADOR.

(C) THE GOE COULD NOT BE SAID TO HAVE ACTED IN GOOD FAITH IN
THIS MATTER. IN THE THREE MONTHS SINCE GULF PAID THE OVERDUE

DEPOSTS, IT HAD BEEN ABLE TO MEET WITH THE INTERINSTITUTIONAL COMMISSION ONLY THREE TIMES; NOW THE GOE WAS INSISTING THAT GULF REACH AN AGREEMENT IN LESS THAN A WEEK. THE COMPANY WAS MAKING A EFFORT TO RESPOND QUICKLY TO THE DRAFT DECREE BUT THE DRAFT WAS SO BAD THAT THERE WAS LITTLE HOPE OF REACHING AN AGREEMENT BY DECEMBER 31, PARTICULARLY GIVEN THE ATTITUDE OF MINISTER VARGAS.

(D) IN MY VIEW, THE ONLY SOLUTION WAS FOR THE SUPREME COUNCIL TO ANNOUNCE THAT THERE HAD NOT BEEN ENOUGH TIME TO FINISH NEGOTIATIONS AND THAT THEY WOULD CONTINUE INTO THE NEW YEAR.

2. THERE THEN ENSUED SOME POLITE ARGUING BACK AND FORTH ABOUT THE DRAFT DECREE; IT WAS EVIDENT THAT HE HAD BEEN LED TO BELIEVE THAT THERE WAS LITTLE DIFFERENCE BETWEEN GULF AND THE GOE NEGOTIATIONS OVER THE TERMS OF THE DECREE. FINALLY, GENERAL DURAN SAID THAT IT WAS HIS POSITION THAT THE GOE SHOULD NOT IMPOSE A SOLUTION ON GULF AND THAT HE WOULD GIVE INSTRUCTIONS TO THE NEGOTIATORS THAT IF NO AGREEMENT COULD BE REACHED WITH GULF BY DECEMBER 31 THE NEGOTIATIONS WOULD CONTINUE UNTIL A MUTUALLY SATISFACTORY CONCLUSION WAS REACHED.

3. HE TOLD ME THAT THE GOVERNMENT WOULD BE ROUNDLY CRITICIZED BY THE LEFT FOR NOT MEETING THE DECEMBER 31 DEADLINE. THE IMAGE OF THE GOVERNMENT WOULD SUFFER. I THEN SWEETENED THE PILL BY TELLING HIM THAT I WAS SURE THAT THE COMPANY WOULD AGREE TO MAKE ANY EVENTUAL SETTLEMENT RETROACTIVE TO DECEMBER 31 AND THAT THE GOVERNMENT COULD ANNOUNCE THIS CONCURRENTLY WITH THE NEWS OF THE PROLONGATION OF THE NEGOTIATIONS. HE BRIGHTENED CONSIDERABLY AND SAID THIS WOULD BE A BIG HELP.
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4. THE VICE PRESIDENT OF GULF, TOM LUMPKIN, IS ARRIVING TOMORROW AND I SUGGESTED TO DURAN THAT HE RECEIVE HIM, WHICH HE AGREED TO DO. I EXPECT TO SEE LUMPKIN FIRST AND TO COACH HIM TO BE SWEET REASONABLENESS WITH DURAN. I SENSE THAT THIS WHOLE BUSINESS OF THE DECEMBER 31 DECREE IS STILL VERY FLUID, IN SPITE OF DURAN'S ASSURANCES TO ME, AND I DON'T WANT GULF TO UPSET THE APPLE CART BY TAKING A HARD LINE.

5. DURAN ALSO CONFIRMED POVEDA'S STATEMENTS TO ME THAT VARGAS IS GOING TO BE REPLACED BY GENERAL JAIME SEMBLANTES AS PART OF A CABINET SHUFFLE BUT HE AVOIDED ANSWERING MY QUESTION AS TO WHEN.

6. LET'S ALL KEEP OUR FINGERS CROSSED UNTIL JANUARY 1.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATIONALIZATION, POLICIES, NEGOTIATIONS, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: blochd0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976QUITO08915
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760472-0611
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761212/aaaaakmr.tel
Line Count: 114
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 QUITO 8914
Review Action: RELEASED, APPROVED
Review Authority: blochd0
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUL 2004 by SmithRJ>; APPROVED <05 NOV 2004 by blochd0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GULF-GOE NEGOTIATIONS
TAGS: ENRG, EINV, PFOR, EC, US, GULF OIL
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006